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Lebanon: Decaying Infrastructure

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An Intelligence Assessment

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*NESA 83-10306
November 1983*

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An Intelligence Assessment

This paper was prepared by [redacted] with a contribution from [redacted] of the Office of Near Eastern and South Asian Analysis. It was coordinated with the Director of Operations. Comments and queries are welcome and may be directed to the Chief, Arab-Israeli Division, NESAs,

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Key Judgments*Information available
as of 4 November 1983
was used in this report.*

All sectors of Lebanon's economy need costly repairs and expansion. Because of fighting over the last eight years:

- At least 280,000 new housing units are needed.
- At least one-fourth of the country's industrial plant and equipment has been destroyed.
- Over half of Lebanon's telecommunications lines need to be replaced.

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Rebuilding a physical plant capable of sustaining long-term economic growth will be expensive. The World Bank's \$5.4 billion package of reconstruction projects should be considered a minimum price tag. In our view, the bill for a complete and comprehensive reconstruction plan could go as high as \$18 billion.

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Based on the likelihood for volatile political and security conditions in the future, we believe that not even substantial outside help could arrest further deterioration of large portions of Lebanon's capital stock. Nor do we believe that Lebanon's wealthy private sector or the government in Beirut would be willing or able to fund much of the reconstruction for the foreseeable future. Foreign countries and aid institutions such as the World Bank have been reluctant to allocate much cash to the rebuilding effort.

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Local confessional organizations, however, such as the Druze Progressive Socialist Party and the Christian Phalange Party, could undertake some work—such as water, road, school, and housing repairs—in the areas that they control. Potential Arab donors, moreover, would be more willing to aid Druze, Sunni, or Shia groups in repairing portions of their “home” areas than to assist the Christian-dominated central government.

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Beirut will probably urge the United States to direct its aid solely to the central government. Another option available would be to channel funds to private voluntary organizations operating in Lebanon. In theory, US aid could most benefit the economy if it were used to repair and expand major telecommunications nets, utility grids, and road systems. In practice, however, we believe that the elements that might be repaired with US funding would be likely to be damaged again in new fighting.

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Those people most in need of housing, health facilities, and schools are the Palestinians, Lebanese Shia Muslims, and other non-Christian minorities in the south and in Beirut's southern suburbs. These areas are under

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nominal government or Israeli control. As long as Christians retain control of the government, we judge that they will be reluctant to devote much public money or foreign aid to areas outside Beirut and the Christian heartland. [REDACTED]

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Continued economic stagnation and erosion of the country's infrastructure—which is the most likely outcome even if additional foreign aid is obtained—will aggravate long-held Muslim and Druze grievances against the central government and further diminish the chances that Lebanon's confessional groups can coexist peacefully. These groups have been deprived economically as in almost every other area of national life and demand redress. In our view, continued economic deterioration is only likely to reinforce the fortress mentality of the hardline Christians, however, and strengthen their determination to hang on to their privileged economic and political status. [REDACTED]

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**Lebanon:
Decaying Infrastructure**

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Lebanon has suffered staggering human and economic losses since the onset of civil war in 1975-76.¹ We estimate that domestic output last year sank to half the \$18 billion achieved in 1974. As a result of the war, more than 45,000 people have been killed and 250,000 wounded. If these figures were transposed to a population the size of the United States, the casualty figures would be 3.5 million dead and 18 million wounded. As many as 1.5 million people—half of Lebanon's population—may have been displaced from their homes.

The protracted warfare has devastated Lebanon's housing, industrial base, and infrastructure. Most of the damage to Lebanon's physical plant occurred in the civil war of 1975-76, with lesser amounts during the Israeli invasions of 1978 and 1982 and far less during the most recent round of fighting in September 1983. Every sector has suffered major damage from direct shelling or fighting. Lack of basic maintenance and replacement over the years has further eroded the country's capital stock. All sectors of the economy continue to function, but none are in good enough shape to allow domestic commerce to come close to prewar levels.

Most estimates of the cost of reconstruction include both repair and expansion of facilities. No reliable estimate of war damage to physical assets is available. We agree with a recent World Bank report that a study of requirements to restore the country's capital stock to its 1974 level has little meaning in Lebanon today. The more relevant measure is the cost of building a physical plant capable of sustaining long-term growth.

In any event, a program for economic revival will not be cheap. The World Bank has identified a package of "high-priority (capital) projects at a fairly advanced

**World Bank's Proposed 1983-85
Reconstruction Program ^a**

Million US \$

Total	5,350
Roads	620
Sewer/water	640
Telecommunications	870
Power	810
Housing	220
Education	470
Assistance to private sector	610
Other	1,110

^a Calculated using constant 1982 prices and 1982 average exchange rate.

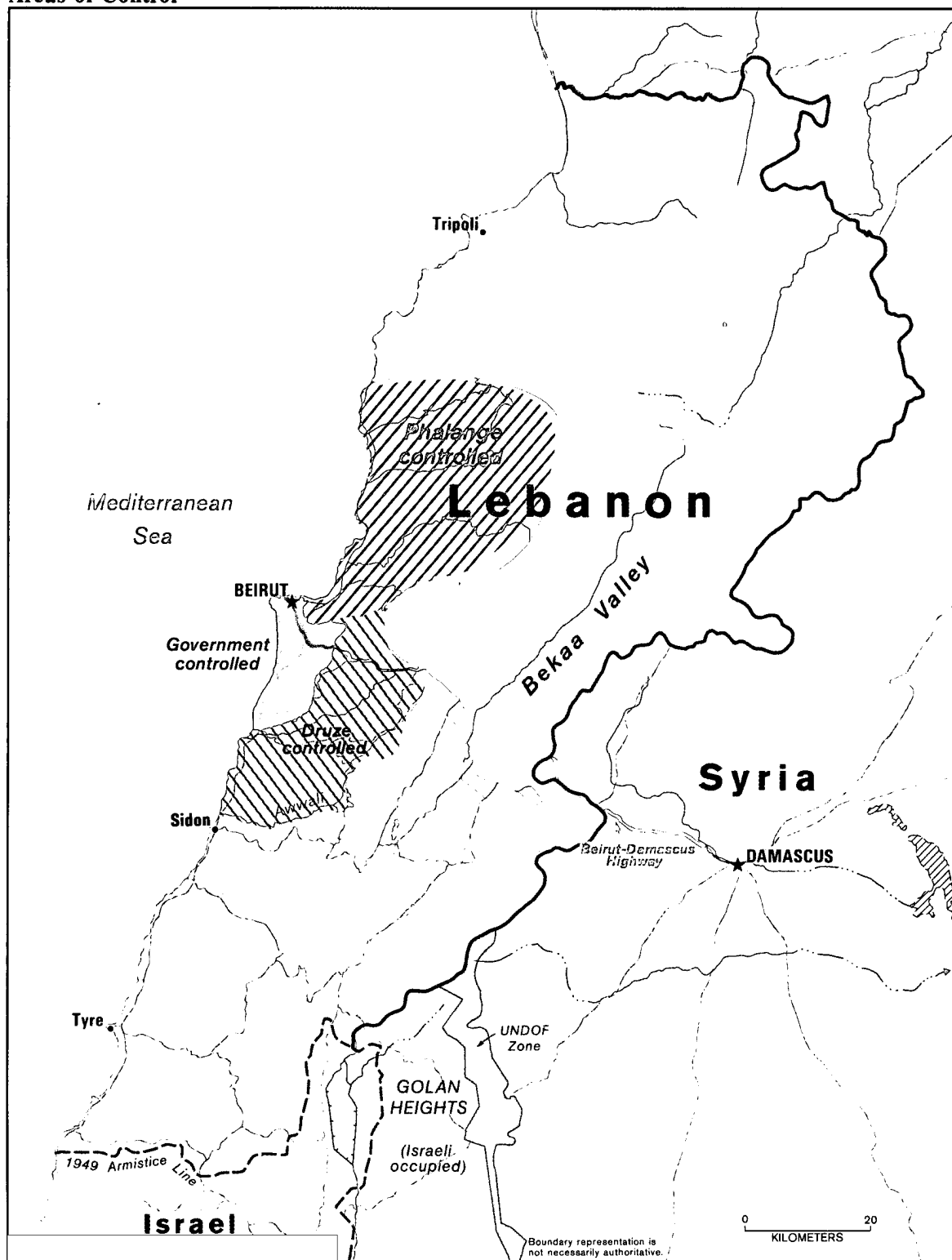
stage of preparation" that would cost about \$5.4 billion in 1982 prices. The Lebanese Government's Council for Development and Reconstruction (CDR) has compiled a much more ambitious proposal that would cost \$18 billion—about triple Lebanon's annual gross national product.

Individual Sectors

Lebanon's comparative advantages before the civil war and the sources of its affluence lay in a few key areas: reliable transportation nets that gave it a role as an entrepot; excellent tourist facilities relatively free of violence; communications nets that made it a logical location for regional service industries such as banks; agricultural exports to the Gulf states; and entrepreneurial and well-educated citizens. If Lebanon is to regain much of its lost prosperity, we believe it will have to rely on these key factors again.

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Areas of Control



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Although few specifics on damage in the north and the Bekaa Valley are available, these areas have suffered much less damage than the south and greater Beirut, where most of the fighting has occurred. [redacted]

Housing

Lebanon suffers an acute shortage of safe, affordable, legal housing. Even before the civil war, a combination of rent controls and land speculation had created an unmet demand for roughly 150,000 additional housing units—primarily in the Beirut area—according to the World Bank. The Bank adds that fighting destroyed or damaged another 92,000 dwellings as of March 1983, bringing the total units needed to about 242,000.² The flood of refugees into Beirut since the Israeli invasion in 1982 and destruction in the recent round of fighting probably have raised the number of new housing units needed to at least 280,000. We believe that the most immediate serious housing problem that may arise is finding shelter for Lebanese Muslims and Palestinians squatting in Beirut and its southern suburbs if President Gemayel or the Lebanese Forces Christian militia step up attempts to displace them. [redacted]

Despite the large-scale destruction that has occurred in Lebanon over the past eight years, [redacted] most inhabitants, including residents of the Palestinian refugee camps destroyed by the Israelis, have secured at least temporary shelter. [redacted] many dwellings are badly overcrowded and structurally unsound.³ Lebanese whose homes were destroyed are theoretically entitled to low-interest government loans to help in rebuilding. The disbursement of money, however, is very slow, as the agency administering the program does not have the cash to fund the flood of requests. Since 1976 about 25,000 loan applications have poured in, according to the World Bank, but by the end of March 1983 the government had processed only an estimated 10,000. [redacted]

[redacted] the housing crunch is particularly acute in Beirut's densely populated southern suburbs, which were heavily damaged during the fighting in 1982 and to a lesser extent in

² Rebuilding the 92,000 units would cost about \$1.2 billion, according to the Bank. About 20,000 of these had been repaired as of February 1983. [redacted]

September 1983. The Shia and Palestinian newcomers to this area over the past eight years have built most of their shelters themselves, with inadequate or nonexistent sewage, water, and powerlines, [redacted]

[redacted] the two- to three-room houses shelter an average of five people. Because most of these people are not only squatters but Shia and other "undesirables," the municipal government has officially condemned, evacuated, and bulldozed many of the homes and done little to find alternative sites for the refugees. [redacted]

As the population of the Palestinian refugee camps grew over the years, camp buildings sprawled well beyond the land legally controlled by the United Nations Relief and Works Agency (UNRWA) onto land owned by others, usually Lebanese. After much bickering between the Israelis and the Beirut government, residents of the flattened camps in southern Lebanon were permitted to rebuild those homes that had stood on land within the confines of the camps. To assist in the rebuilding, the Israeli Government announced that it would give free cement and other aid to those wishing to rebuild. [redacted]

[redacted] the homes that have been repaired are extremely crowded, often accommodating not only the original Palestinian inhabitants but their friends and relatives who had lived outside the UNRWA camps. [redacted]

[redacted] the situation inside Palestinian camps in the Beirut area is little better. Many inhabited dwellings are heavily damaged and structurally unsound. Residents claim that the Lebanese Government is strictly limiting the amount of rebuilding in an attempt to push them out of the area. While the homes are very crowded and have few or no utility connections, they at least keep out the worst of the weather, and few people are without a roof over their heads. [redacted]

Transport

Lebanon's roads—which carried a large share of the reexport trade before the war—are in very poor shape and could not carry the volume of cargo and passenger traffic that would develop should the economy

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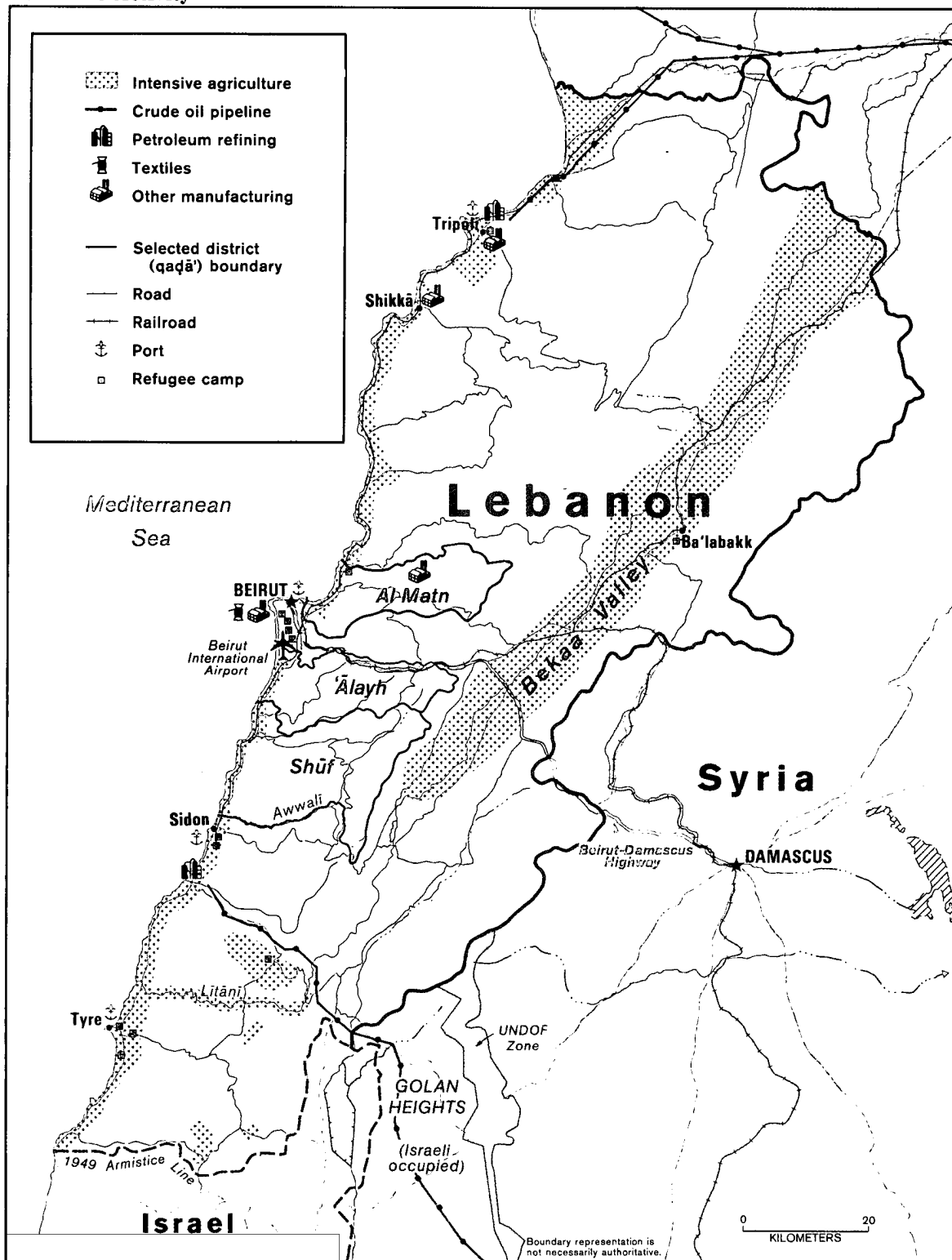
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Economic Activity



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improve. [] road surfaces have deteriorated sharply since the onset of the civil war in 1975 under the pressures of constant civilian use and the wear and tear of heavy military vehicles. US Government reporting indicates that the Israelis and the Beirut government have repaired enough of the shell craters and other direct damage done by the fighting in 1982 to make the roads passable. The fighting in September 1983 did relatively little new damage. []

The World Bank has recommended a series of road improvements over the next three years that would cost roughly \$620 million in 1982 prices. It believes a highway bypass around Beirut is the highest priority, and a new coastal road from Sidon to Tripoli is a second key project. In one of its few major reconstruction initiatives to date, the Beirut government has awarded a contract for a first segment of the bypass, the "Voie Littorale," to link east and west Beirut. []

In southern Lebanon the Israelis have upgraded numerous roads, though the only one that would be of commercial importance is the coastal road, which is a main artery. We believe that the improvements to this road are primarily designed to speed military movements from Israel northward, but they could also facilitate much greater trade between Israel and Lebanon as well as internal Lebanese trade. Frequent traffic jams caused by Israeli checkpoints and the generally depressed state of commerce prevent the economy from benefiting from these improvements. []

Much of the lucrative reexport and transit trade in Lebanon in prewar days flowed through its principal port in Beirut. Adequate harbor facilities will be essential if Lebanon is to regain much of the transit trade it lost during the civil war. The port's facilities were almost entirely destroyed in 1975-76; the replacements provided by the United States and World Bank in 1977 sustained some damage during the fighting in 1982. The port currently is nearly empty, and, according to US Embassy reporting, it could easily accommodate a substantial increase in traffic in its present state. For Lebanon once again to become a major reexport center, extensive modernization of Beirut port—costing about \$110 million, according to the World Bank—would be necessary. Sunken ships in the harbor's "First Basin" would also need to be cleared. []

Tripoli in the north is the other port of economic importance. It is controlled by the PLO, and press reporting suggests that it is congested with ships trying to evade Lebanese customs duties. It also needs dredging. The World Bank estimates dredging and some expansion costs at Tripoli port to be roughly \$70 million. []

Beirut Airport is the country's key passenger outlet to the rest of the world. It was extensively damaged in 1982. The Lebanese agency responsible for the airport estimates repair costs at about \$25 million. By July 1983 the repairs were virtually complete, although some outbuildings still needed work. Runway damage will, however, continue due to renewed shelling of the airport. Such damage can usually be repaired speedily if security conditions permit. We believe the airport could accommodate a strong economic resurgence without major expansion. []

Lebanon's few kilometers of railroad track—never a major means of transport—are almost all unusable. []

[] several segments near the Beirut Airport revealed rotting ties and rusty rails. []

[] Emir Abdullah Chehab, chief of Lebanon's railroads, outlined ambitious plans for speedily rebuilding the lines, but []

[] the government has neither the money nor the interest to restore the railroad system. In such a small, unindustrialized country, we believe there is little economic justification for doing so. []

Telecommunications

One key reason that Beirut was a major center of finance, commerce, tourism, and service industries before the civil war was its superior telecommunications services. Damage to telephone facilities since the civil war has been extensive, and service is now very poor. As of December 1982 nearly one-fourth of Lebanon's 300,000 telephone and telex lines—the bulk of them in greater Beirut—were out of service, according to the World Bank. At least another 100,000 must be replaced, according to the CDR. Even if the current system were repaired, the Post and

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Telecommunications Ministry estimates that a minimum of 300,000 additional lines is needed to provide an acceptable level of service. Several of the exchange and switching facilities and major electrical cables have been destroyed, and those remaining in service are antiquated and should be replaced. [redacted]

The World Bank has estimated the cost of restoring, rehabilitating, and expanding the telecommunications net at roughly \$870 million in 1982 prices, and an additional several million will be required as a result of the latest round of fighting. Under the best of security conditions, the Bank estimates that the job would require at least three years. [redacted]

If Beirut is to lure back the service and finance companies relocated to places such as Athens, Amman, and Bahrain after 1974, reliable and accessible communications will be essential. If travel within Lebanon remains restricted by factional fighting, telephone service will also be one of the few ways for people around the country to remain in contact with one another. [redacted]

The Post and Telecommunications Ministry has been allocated very little government money for reconstruction. Several Western nations, however, are seeking to promote exports of telecommunications equipment, and we believe Beirut will receive some form of Western aid tied to purchase of new equipment. In contrast to other projects, such as modernizing the underused port, we believe business in Beirut would benefit immediately from repair and expansion of its overused, undermaintained telecommunications net. [redacted]

Utilities

Electricity. Extensive damage to Lebanon's electric transmission and distribution system causes frequent power outages around the country. Recent heavy shelling from the Shuf and Alayh districts has cut powerlines and forced state-owned Electricite du Liban (EDL) to ration supplies by imposing power cuts of about 17 hours per week throughout greater Beirut and in the Shuf and Upper Matn regions, according to the US Embassy. To protect themselves from outages, many private firms have bought their own generators. EDL estimates that repairing transmission and distribution equipment would cost about \$70 million in 1982 prices. [redacted]

Even if the transmission and distribution systems were fixed, EDL believes that demand would far outstrip generating capacity. It has, therefore, embarked on a \$200 million expansion program, according to the World Bank. Much of the funding is scheduled to come from the government, as EDL has long been a substantial money loser. At a disadvantage in Lebanon without a private militia of its own, EDL has been unable to get consumers to pay their bills. Moreover, extensive illegal tapping of the powerlines has meant that EDL could send out bills for only half of the electricity it generated in 1981, according to the World Bank. [redacted]

We do not believe that the unreliability of electric service presents a serious obstacle to the Lebanese economy under present business conditions. Even if security improved, the costs of emergency generators for businesses that must have reliable power are probably not prohibitive, since Lebanon has little industry. [redacted]

Water. In contrast to the other countries of the Levant, Lebanon has adequate water resources. As with most of Lebanon's services, the problems lie in the delivery systems. According to US AID officials, most water facilities have not been expanded or regularly maintained for years. Most of the damage from direct hits either has been or is being repaired, but the lack of maintenance has done greater damage than any fighting. The aging water system is so leaky that in the dry season—August to December—there is rationing throughout the country. Periodic water cutoffs were still occurring in Beirut as of late March 1983. The low pressure caused by leakage also substantially increases the risk of waterborne disease. [redacted]

The sewer system—which has suffered relatively few direct hits—suffers from many of the same problems. While about half the populace's homes are connected to the system—and nearly all in Beirut—the system is overloaded and badly maintained, according to a US AID official. Untreated wastes are routinely discharged into Beirut harbor. [redacted]

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Lebanon's multiple and overlapping water authorities have devised an eight-year water and sewer investment program that would cost roughly \$1.25 billion in 1982 prices. This is unlikely ever to be implemented in view of the costs involved. US AID consultants concluded in December 1982 that, in view of the health hazards posed by the presently inadequate system, additional garbage trucks and a sewer upgrading program—which would cost about \$4.5 million—are the top priority for this sector. US AID has already provided some trucks. []

Fuel. The principal obstacle in the fuel import and distribution system is not the state of the country's physical plant but transportation problems caused by road closings. Lebanon runs mainly on gasoline, which it obtains by offloading crude at the ports of Sidon and Tripoli and processing it in refineries near each port. Fuel is delivered to the rest of the country by truck. Two crude oil pipelines exist, but each has suffered damage. While both can still operate, neither does. Last year, Syria closed the Iraqi Petroleum Company's pipeline to Tripoli for political reasons, and the management of the Saudi pipeline in the south has abandoned its unprofitable operations there. Although the Tripoli refinery appears to be undamaged, the US-owned Medreco refinery in the south suffered about \$4 million in damages in the fighting in 1982, []

[] should the refinery suffer additional damage, Medreco will stop operations and turn over the plant to the Lebanese Government. If the refineries cease, the ports at Sidon, Tyre, and Beirut could unload all the refined products needed, []

Industry and Agriculture

The Beirut Chamber of Commerce estimates that, between 1974 and 1983, one-fourth of the country's industrial plant and equipment was destroyed—150 factories were destroyed, and 331 more were damaged. Numerous others in the Beirut area were destroyed in the shelling in September 1983. In the textile sector, one of the largest local manufacturing industries before 1974, the wars' disruptions have forced 800 of 1,200 factories to close. According to the Chamber, 350 of 500 furniture manufacturers have also shut down; many now import the goods they used to manufacture. In 1974 industrial production

was at its peak and accounted for perhaps 18 percent of domestic output; by 1980 its share had shrunk to about 10 percent and is probably smaller today. The bulk of Lebanon's remaining industrial plants are located in the Christian heartland and are owned by Christians. []

We believe Lebanon's resourceful and entrepreneurial private sector will be able to rebuild Lebanon's small industrial sector without major outside assistance when relative peace and stability are restored. One Lebanese banker recently proposed a scheme whereby the government and commercial banks would provide equal shares of a long-term, low-interest fund for industrial reinvestment. Such a project, in our view, is unlikely to have much impact. Lebanese banks are brimming with money, and the supply of capital is not a constraint. The real problem, in our view, is that very few Lebanese expect political and economic conditions to be stable enough to enable them to pay off new loans. []

Tourism was once a flourishing sector of Beirut's economy, but today the flow of foreign tourists into West Beirut has dried up. The industry is nearly as depressed in East Beirut and the Christian resort areas along the northern coast. Many of the best hotels have long since been devastated by shelling, and in any event the country's poor internal security discourages tourists. []

The primary difficulties facing farmers throughout Lebanon are transportation restrictions, competition from Israeli produce, and the presence of Israeli and Syrian occupation armies in the fields. Another key factor is the reluctance of the Arab Gulf states—formerly a major market—to buy Lebanese produce because some has proven to be falsely labeled Israeli goods. The Beirut government, according to US Embassy reporting, is making some loans to tide farmers over, but their income remains depressed. Little damage has been reported to agricultural equipment and other capital. []

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Social Services

Education. Although Lebanon's wealthier classes traditionally send their children to private schools, the poorer segments of the population—primarily Shia—rely mainly on the public school system, which has taken a heavy beating. The dangers of travel and destruction of school buildings helped to cut the number of children attending public schools by about 12 percent between 1973 and 1981—the most recent year for which figures are available. Thirty-nine public schools have been destroyed, according to a UNICEF study done in late 1982, and more than 400 require some repair. UNICEF is rehabilitating some 130 schools, but for most—including 85 schools in Beirut's suburbs—financing is unavailable. In Beirut's largely Shia southern suburbs, the need for additional schools is acute. The US Embassy reports that there are only five public secondary schools and 27 primary schools to serve a population of about 800,000. [REDACTED]

We doubt that the government will move rapidly to complete the roughly \$60 million worth of work. At a recent World Bank-sponsored meeting, only the Italian Government offered to advance money for schools. It did not indicate how much or when funds would be provided. [REDACTED]

Health. Hospitals and medical facilities run by the Palestinian Red Crescent Society in West Beirut and the south, which used to provide free treatment to Palestinians before the Israeli invasion, are now closed. As a result, Palestinians are the group with the greatest need for improved health care. The Lebanese Government picks up the bill for Lebanese citizens' treatment, but the non-UNRWA-registered Palestinians must finance their own. [REDACTED]

The CDR has estimated the cost of stopgap repair for Lebanon's health facilities at about \$35 million. Funding has been secured by UNICEF and the CDR. No estimates are available for the cost of additional facilities. Most of the health facilities in Lebanon and more than three-quarters of its doctors are concentrated in Beirut and the Christian heartland; the rest of the country is left with comparatively little medical help. In Beirut's southern suburbs, for example, there is just one hospital, which is run by the Higher Shiite Islamic Council. [REDACTED]

Although the Israeli Government has invited Beirut to cooperate in restoring social services in the occupied south, Gemayel has so far refused in order to avoid giving the appearance of collaboration with Israel, according to US officials. The south, however, is receiving some help. Two medical units are being built near Sidon—one financed by Rafiq Hariri, a wealthy Lebanese businessman and philanthropist, and the other by US AID. Construction of the Hariri hospital, however, was stalled by the theft of bulldozers and other heavy equipment from the site by the Lebanese Forces Christian militia, according to a US diplomat. [REDACTED]

The Israeli Factor

The Israeli Defense Force (IDF) is making some improvements and repairs to the infrastructure in southern Lebanon. We believe these are intended to enhance Israeli military capabilities rather than to rebuild the local economy. The IDF is improving some roads in the south and connecting some electric lines south of the Awwali River to the Israeli power grid. [REDACTED]

The IDF does not appear to be hampering the work of private relief organizations in the south. The Lebanese provincial governor, however, has told US officials that the IDF requires that he coordinate his activities—including infrastructure repair—with Israeli officials. The need to collaborate with Israel touches a sensitive chord in the Lebanese and tends to delay work the provincial governor would otherwise do. [REDACTED]

We have little information on economic conditions in the Syrian-occupied portions of Lebanon. These areas have been spared much heavy fighting since 1978 and have generally suffered much less damage. To our knowledge, Damascus is not extending humanitarian or reconstruction aid to northern residents. The Syrians do not appear to be obstructing commerce, apart from sporadic closures of the Beirut-Damascus highway. [REDACTED]

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Outlook

The overriding constraint on rebuilding the Lebanese economy—and the least susceptible to foreign help—is the widespread breakdown in the enforcement of the country's law and order. If domestic confidence in a stable future could be assured, we believe the Lebanese would begin to use their ample financial resources, entrepreneurial ability, and private foreign investments to rebuild the private sector over a period of eight to 10 years without major foreign assistance. We believe the government is unlikely to muster the political strength to collect taxes and begin to rebuild in the country's non-Christian areas. Therefore, we believe that significant repair of public infrastructure will occur only if either:

- Foreign countries or such institutions as the World Bank inject funds.
- Confessional organizations such as the Druze Progressive Socialist Party or Christian Phalange Party undertake the work in the areas that they control. While these factional groups could finance some water, sewer, and road work, they probably could not make significant improvements on such expensive and sophisticated equipment as the telecommunications net. [redacted]

As neither the government nor the private sector is likely to resume investment over at least the next two years, only outside help—and probably not even that—can arrest continued steady deterioration in living standards and capital stock. In our judgment, however, neither the Arab states nor Western Europe are likely to contribute much to Lebanon's reconstruction. [redacted]

Government Paralysis

President Amin Gemayel's government, as a result of continued civil unrest, is incapable of performing most of the normal functions of a state, such as rebuilding public infrastructure.⁴ We expect that his situation

⁴ Gemayel has devoted almost no attention to economic reconstruction issues, in contrast to his predecessor Elias Sarkis, who banked heavily on a government-funded reconstruction program to restore stability and reunite the country after the civil war. In the aftermath of that fighting, Sarkis collaborated with his advisers to produce a detailed reconstruction program that included a revamped school system intended to transcend religious and communal ties and instill a sense of nationalism. [redacted]

will only worsen in the coming months. In our opinion, there is little prospect over the next year that the central government will regain authority beyond the Beirut area or that there will be a redistribution of political power so that the Shias, who suffer most from the war damage, could squeeze significant tangible benefits, such as housing assistance, from the state. [redacted]

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The desire of some Maronite Christian extremists to jettison the rest of the country and create a Christian state—"Marounistan"—along the northern coast further complicates the picture. We believe that some are firmly opposed to any government spending on the non-Christian areas on the grounds that Beirut's treasury should be saved for the day when the government is no longer responsible for those areas and the money can then be spent on the Christians. While we do not believe that Gemayel shares these views, extremist Christian opinion will limit how much he can do in rebuilding non-Christian areas. [redacted]

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Even if Gemayel could muster the political strength to rebuild, he will have little cash to devote to the effort. Government officials acknowledge that customs fees, the treasury's key source of domestic revenue, are virtually impossible to collect except in Beirut. Even there, evidence from the US Embassy is mounting that the Phalange Party has regained control of the "Fifth Basin" of the Beirut port and is diverting ships from government-held quays. Moreover, Phalange Party money has recently been used to buy the corporation that operates the port on behalf of the government, and we believe that the Phalange will take advantage of this position to divert even more ships into the Fifth Basin as well as to skim off a share of what customs the government can collect. [redacted]

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The Central Bank's governor has stated to the author his reluctance to commit the bank's \$2.5 billion worth of gold and foreign exchange reserves to rebuilding on the grounds that whatever is rebuilt could easily be destroyed in another round of fighting. Instead of using Lebanon's reserves for reconstruction, we expect the Central Bank will try to husband its resources in the event it has to bail out Lebanon's banking industry. [redacted]

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Poor Prospects for Outside Help

The prospects for large-scale financial help from Western Europe or the Arab states are also poor. At a World Bank-sponsored meeting for potential donors in July, only three European governments offered appreciable support, according to a US official who attended. West Germany offered \$39 million, mostly in export credits and soft loans. France agreed to another \$39 million in mixed credits and commercial loans—in part to help promote sale of its telephone-switching equipment to the Lebanese. Italy, the only European country to offer additional humanitarian aid, did not commit itself to any specific sums but agreed to make some soft loans and assist the UNICEF effort to rebuild schools. One reason the European governments were reluctant to get more involved, according to the US official, is that they fear for the safety of their personnel in the wake of the bombing of the US Embassy in April and the deaths of soldiers in the Multinational Force in August and September. The bombings of the US and French barracks on 23 October will, in our view, reinforce this reluctance. [REDACTED]

The Arab states have made plain their reluctance to aid Gemayel as long as Israel occupies Lebanese soil. The World Bank is also reluctant to commit much cash in view of the unstable military situation and the fact that Gemayel controls so little territory. [REDACTED]

[REDACTED]
[REDACTED] Israel has offered little or no humanitarian assistance to the local population, apart from donating some construction supplies to families whose houses were destroyed in the invasion. Eventually, however, in an attempt to defuse local hatred and opposition to its presence, we believe Israel may offer some reconstruction funding via the "Village Militias" it is organizing and equipping. [REDACTED]

Political Sensitivity of Aid

The continued economic stagnation in Lebanon will aggravate Shia and Druze grievances against the central government and further diminish the chances that Lebanon's confessional groups can coexist peacefully. As in almost every other area of national life, the Shia and Druze groups have long been given the short end of the economic stick and demand redress. Moreover, continued economic deterioration is likely

to reinforce the fortress mentality of the hardline Christians and strengthen their determination to hang on to their privileged economic and political status. [REDACTED]

Beirut will probably urge the United States to direct its aid solely to the central government. Such a request would be aimed at controlling the use of the funds for projects beneficial to the Christians. We believe non-Christian groups would view this as another indication—in conjunction with the recent US shelling of Druze and Shia military positions—that the US Government favors the Christians. Channeling a portion of US aid to private organizations, such as Catholic Relief Services, operating in non-Christian areas is an option that could help dispel this perception. [REDACTED]

Implications for the United States

We believe that little improvement in Lebanon's infrastructure can be expected even if the United States significantly increases its economic assistance to the Lebanese Government. In theory, US aid could most benefit the economy if it were used to repair and expand major telecommunications nets, utility grids, and road systems. In practice, however, those elements of the capital stock that are repaired—with US or other funding—probably would be targets in new fighting. President Gemayel, however, will continue to argue that US economic aid should be a key element of US support for the Lebanese Government. The Lebanese will look not only for US cash but also for specific proposals for rebuilding projects. [REDACTED]

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